

“Additionally Insured” Explained

One of the most important reasons landlords hire a property manager is to help limit exposure to and manage the inherent risk of owning rental property.

Often, questions arise as to why it’s important to add the property manager as Additionally Insured on the Homeowner’s or Property Owner’s insurance policy. Some of the key questions are addressed below:

Why should I list my Property Manager as Additionally Insured on my Insurance Policy?

Experienced and well-informed management firms are increasingly requiring the Property Owner to add the Property Management Company as Additionally Insured on the owner policy. While often overlooked out of convenience or misinformation, it is a very important element of an overall risk management strategy not only for the Property Management company but also for the Property Owner.

What does “Additionally Insured” mean?

The Additionally Insured verbiage on a homeowner’s policy simply means that the coverage is extended not only to the owner of the property but also to the listed agent or Management Company. Some insurance agents and property managers will confuse “Additionally Insured” with “Additional Interest”. They sound similar but are vastly different. “Additional Interest” does not extend coverage but will simply notify the property manager of policy renewals, cancellations, or policy changes. Another common misconception is that the Additionally Insured verbiage will provide the Property Management firm with a financial interest in the property. Unlike a mortgage holder, the Property Management company does not have, or want, a financial interest in the property but nevertheless has a very insurable interest from a premises liability standpoint such as personal injury on the premises.

Why is adding the Property Manager as Additionally Insured important to the Property Owner?

When a property manager is hired, they take on almost all the responsibilities as if they were the homeowner. As such, if something were to go wrong, such as personal injury, the Property Manager is often the target, in place of the owner, of any resultant litigation.

For this reason, almost all reputable Property Management firms have a strong indemnification and hold harmless clause as part of their management agreement. If the management company is properly listed as Additionally Insured, the coverage will automatically be extended to both parties as needed.

In the worst of cases, if a major litigation claim takes place, it is likely that both Property Manager and Owner would be named as co-defendants. Having the owner policy extended to both, would create a unified defense, with one insurance company defending both, streamlining the defense process and significantly reducing total legal expenses for all for which the owner (or the insurance company) is ultimately responsible.

Why is the Additionally Insured endorsement on the owner's policy important to the Management Company?

Most Property Management firms carry General Liability Insurance as well as Professional Liability insurance which will offer protection from a financial loss caused by a mistake or wrongful act by the Management Firm. However, these policies don't provide protection against matters concerning the home itself. This leaves the property manager vulnerable to claims regarding someone injuring themselves at the property, burglary, fire, water leaks, etc. When coverage is effectively extended to the Property Manager through the Additionally Insured endorsement, the problem is solved.

Without the Additionally Insured endorsement, the management company could be left to fend for itself and then seek reimbursement from the owner directly (or their insurance) for any losses under the indemnification clause. Needless to say, this alternative would be exponentially more expensive and time consuming for all.

Are Insurance Companies willing to add the property manager to the owner's policy as Additionally Insured?

Most of the larger insurance companies understand that doing so is in their customer's best interest and will add the Property Management firm upon request for little or no additional cost. However, some of the smaller or specialized companies view adding a third party to the policy as taking on additional risk and refuse to do so. While there may be some merit to their viewpoint, it can be argued that using a professional management company will reduce overall risk and that since the owner is indemnifying the management company, they would eventually be faced with a payout on behalf of their customer. Accordingly, their total cost of a payout could be significantly reduced if they are in control of the claim from the beginning.

Helpful Tips for Setting Up Insurance for Your Rental Property:

- 1) Make sure that your Insurance Agent understands that you are requesting the Property Management Firm be added as "Additionally Insured", not merely "Additional Interest".
- 2) Ask if there is an additional charge for the "Additionally Insured" endorsement. If there is, you may want to shop around but remember that the overall cost effectiveness of your policy may still be better even with an additional fee.
- 3) Ask your Insurance Agent if there are any other products their companies offer that may be useful to you, i.e., lost rent protection, upgraded commercial policy, etc.
- 4) If your Property Management company is contending that an Additionally Insured endorsement on your policy is not important, carefully question their rationale and be sure you've contemplated the risk.

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Disclaimer: It is always recommended that you seek the advice of a local attorney to more about real estate laws and how they can impact you and your property.